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3-1984

## Practicing CPA, vol. 8 no. 3, March 1984

American Institute of Certified Public Accountants (AICPA)

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## STARTING AND MAINTAINING A PRACTICE DEVELOPMENT PLAN

In keeping with our belief that goal setting is essential, everyone in our firm has a time budget. The budgeting process includes our practice development efforts, much of the planning for which takes place at our annual firm retreat for partners and managers. Practice development has not always been well planned in our firm. In fact, in the beginning, our efforts were quite haphazard.

Stimulated by the ideas expressed at the first management of an accounting practice conference I attended a few years back, our firm embarked on a period of rapid growth. Revenues grew at a 70 percent annual rate for three years—a pace which is just too fast to be sustained without concomitant problems.

For example, our answer to the problem of coping with a rapidly increasing workload was to simply hire more staff. However, the trouble with that solution is that people need time to fit into a firm and the firm needs time to train them and implement programs. We found that not devoting enough time to the implementation of plans and programs caused many problems.

In an effort to indicate we were different from other firms, we developed a 12-minute slide documentary describing the firm. After initial confusion, staff simply stopped using it, mainly because no one knew how to proceed to the next step. Our seminars weren't very successful, either, because of lack of follow-up and personal contact. About the only success we had in our practice development efforts at that time was with the firm newsletter.

Our failures taught us the need for total coordination of marketing effort in the firm. We decided that the managing partner could not devote enough time to practice development and still effectively perform his other duties. We appointed a practice development partner, but unfortunately, he did not have enough time or adequate background to properly administer a marketing program either. The

upshot was that at our next retreat we decided to hire someone (part-time) with the necessary experience to run our practice development program.

By now we knew that to maintain staff's initial enthusiasm, the marketing program had to meld with all other professional activities in the firm. The real need was for an internal practice development program that would provide the firm's personnel with knowledge of the services we could offer, who in the firm they should see and what they should do, etc.

There must be clear lines of authority if such a program is to work. To engage in practice development activities, staff must know who will actually render the services and how the job will be done.

The objectives of our internal practice development program are to provide personnel with information and systems that enhance their abilities to communicate with clients and match clients' needs with the services we can offer. As a first step, we identified 29 different services we were providing and made a list of our top 200 clients. We then matched the two lists to see what service opportunities we were missing, and devised a program to take advantage of these opportunities.

In order to let staff know about the firm's client activities, we have a column in the weekly staff bulletin that gives details of our marketing efforts. We also maintain a correspondence bank to let staff

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know what has been written to clients and where we stand on proposals. And, to implement follow-up programs, we have a personal action plan in which people state how they will implement the practice development program on an individual basis.

### External practice development

One conclusion of a research study on market share that we commissioned, prior to designing our marketing program, was that price is not a factor in why clients choose one firm over another. The problem as clients see it is not the fees they are charged, it is the lack of attention they are paid. It is therefore up to the CPA firm to convince clients that it is the right firm for them and that it can provide the type of service they want. There are several ways to do this.

Client and referral source seminars, specialty brochures and, of course, client newsletters are all excellent ways of demonstrating expertise in given areas, and of establishing or maintaining contact. We believe that industry-directed inserts are useful in this regard. The inserts are prepared by industry teams which we established as part of an effort to improve client service—make more staff known to clients, etc.—and promote the one-firm concept.

Local newspapers are always looking for news articles and, used properly, can provide the best free advertising your firm can get. Another way we have found to get our firm name recognized is through the sponsorship of nonprofit fund raising events. Advertising is another possibility, although it is essential to know exactly which audience you are targeting and what you hope to achieve before you start spending any money. An area that we find to be particularly rewarding is community involvement. We are willing to spend a lot of time on activities such as the American Players Theater and public television and radio.

A turning point in our practice development efforts was our realization that marketing coordination is a full-time responsibility and that service firms should utilize people trained in marketing, even if this is on a part-time basis. While one person may be responsible for coordinating the plan, every-

one in the firm—not just the marketing director—is responsible for marketing services.

As with all plans, your marketing plan must be in writing and must reflect the philosophy of the firm. You can refine the plan at retreats where partners have time to reflect on what is needed. You should, at least, leave the retreat with an understanding and, hopefully, with an agreement.

We find that as a result of the efforts we have made, our staff has become really involved in practice development. In the broadest sense, marketing our services is accepted as an integral function of the firm. This benefits not only our bottom line but our clients as well.

—by William T. Young, CPA  
Madison, Wisconsin

### Letter to the Editor (Peer Review)

The attempt to provide the highest quality services possible is always desirable in any professional firm, be it a sole practitioner or a group of doctors, lawyers, engineers or CPAs. Recently, we successfully completed our second peer review since joining both sections of the AICPA division for CPA firms. Being delighted with the results, we decided to tell our clients about the experience via our monthly newsletter.

To begin with, we explained a little of the history of the division for CPA firms and peer review, and that the review firm was selected by us because its client services are identical to ours. We then described how the reviewers first determined that we have an adequate quality control system and then checked to see that professional standards were followed in a representative sample of our accounting and auditing engagements. The main point of the letter, of course, was to tell about the benefits both we and our clients derive from this undertaking.

There is no doubt that there has been a lot of hard work to achieve our goal of being able to assure our

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clients and our own staff of the quality of our services, and that the initial cost was heavy. We purchased a series of manuals from a large firm that has offices in moderate- to small-size towns, and based on these, developed a quality control manual specifically for our firm which we reorganized. Now that we are organized in accordance with their system, the ongoing costs are modest.

The point we are able to make to our clients is that the efficiencies of organization, and the resultant ability to effectively delegate the more routine work to accountants with lower hourly billing rates, more than offsets the ongoing costs. Just as with any business, the better our firm is organized, the more efficient it is, resulting in lower costs to clients.

Providing quality services is the goal of many individual firms and groups or associations of CPA firms. As for ourselves, we believe our entire firm is stronger as a result of our participation in the AICPA division for CPA firms and the related peer review process.

*Raymond Telling, CPA  
Plattsburgh, New York*

## 1984 Small Firm Conference

In order to accommodate the many practitioners who wish to attend, the AICPA will again hold its annual small firm conference, on two dates in two different locations: August 2-3 at the Westin-St. Francis Hotel in San Francisco, California, and November 8-9 at the J.W. Marriott Hotel in Washington, D.C.

The program, which is planned by the Institute's management of an accounting practice committee, features the same speakers and topics at each site and focuses on the interests and problems common to all small firms, especially sole practitioners and firms with two to three partners.

Discussion topics include:

- ☐ Individual and firm goal setting.
- ☐ Marketing and the small CPA firm.
- ☐ Managing costs and fees to maximize profitability.
- ☐ Micro and minicomputers in the small firm.

In addition, concurrent discussion sessions, moderated by members of the MAP committee and other practitioners, are being planned for the first evening of the conference.

Last year, almost 700 people attended the small firm conferences. So, mark the dates on your calendar, and if you would like more information, call the AICPA's industry and practice management division (212) 575-3826.

## Five Management Principles

According to a report in the December 1983 issue of Robert Morris Associates' *Commercial Lending Newsletter*, of his presentation at that association's fall conference, Dr. Olaf Isachsen, president of the Institute for Management Development, Inc., in Oakland, California, stated that all of the successful managers he has encountered share some management principles. Five of the principles they have in common and which with a few word changes apply to any firm are

- ☐ Anticipate and welcome change, both in the external and internal environment.
- ☐ Understand that there is no one in the firm who does not want to contribute fully and be appreciated for it.
- ☐ Enable people to do their jobs by giving them the necessary power.
- ☐ Understand that the responsible manager behaves strategically and not politically.
- ☐ Have a continued belief in honest and concerned achievement and that those who work with you can share in that experience.

Nothing is more important to an organization than its people.

## Practice Aid Authors Wanted

The AICPA Management Advisory Services (MAS) division is currently seeking practitioners experienced in MAS to author Technical Consulting Practice Aids on the following subjects:

- ☐ Improving client operations
- ☐ Budget engagements
- ☐ EDP security
- ☐ Productivity studies
- ☐ Manpower planning and scheduling
- ☐ Project planning and control
- ☐ Methods and procedures techniques
- ☐ Production scheduling
- ☐ Capacity planning and loading
- ☐ Material requirements planning
- ☐ Assisting clients in establishing a franchise
- ☐ Litigation support
- ☐ Assisting clients with mergers and acquisitions
- ☐ Profitability analysis
- ☐ Software systems testing
- ☐ Office automation

For further information call Monte Kaplan (212) 575-7057.

## Practice Management Profile

The Texas Society of Certified Public Accountants annually conducts a survey of firms regarding various data on the management of an accounting practice. In 1983, responses were received from 2,804 firms representing 19 participating state CPA societies. The complete results of the survey are made available to the responding firms, thus better enabling them to assess their own operations through comparison with other practices of similar size. The following data from the 1983 Practice Management Survey (which captures the results of 1982 operations) is presented for the readers of the *Practicing CPA*.

As one becomes more immersed in public accounting practice, being aware of what other practitioners are doing becomes important for several reasons but primarily to help one stay competitive. Knowing something of the manner in which others

manage successful practices provides benchmarks that are useful when making operating decisions and finding answers to everyday questions such as

- ☐ Are my billing rates competitive?
- ☐ How much salary should I offer the new college graduate I would like to hire?
- ☐ Am I charging too few hours to my clients?
- ☐ Should I be paying my staff for overtime work?

Certain overall operating characteristics of the 2,804 respondents are highlighted in exhibit I and presented in more detail in the exhibits which follow. The data in the exhibits were classified according to firm size. Non-national firms with fees up to \$350,000 were classified as "small," "medium" size firms had fees between \$350,000 and \$900,000 and the "large" firms more than \$900,000.

Information about the earnings of firm owners is shown in exhibit II, while exhibit III summarizes

**Exhibit I**  
**A Statistical Profile**

	<i>Non-national</i>				<i>National</i>
	<i>Individual</i>	<i>Small</i>	<i>Medium</i>	<i>Large</i>	
Number of firms	1,299	601	553	306	45
Personnel					
Partners	1.0	2.2	3.1	5.9	7.0
CPAs (not partners)	.3	.3	1.3	4.1	13.7
Other professional	1.3	2.1	5.7	16.5	40.6
Office and nonprofessional	1.0	1.4	2.8	7.0	13.9
Average firm size	3.6	6.0	12.9	33.5	75.2
Average net income per partner <sup>1</sup>	<b>\$ 94,175</b> \$ 49,220	<b>\$ 70,878</b> \$ 45,042	<b>\$106,459</b> \$ 69,662	<b>\$ 149,706</b> \$ 96,218	<b>\$ 280,708*</b> \$ 164,333
Average net fees per firm	<b>\$237,704</b> \$127,737	<b>\$263,709</b> \$217,476	<b>\$620,625</b> \$562,225	<b>\$1,863,517</b> \$1,618,925	<b>\$6,322,335*</b> \$4,000,365
Average percentage increase in net fees (from previous year) <sup>2</sup>	<b>15.7%</b> 16.7%	<b>6.2%</b> 10.0%	<b>18.9%</b> 15.5%	<b>20.4%</b> 15.5%	<b>33.6%*</b> 25.3%
Average charged hours per person <sup>3</sup>	<b>1,325</b> 1,139	<b>1,282</b> 1,188	<b>1,405</b> 1,341	<b>1,337</b> 1,308	<b>1,334*</b> 1,242
Average percentage of standard fees realized	<b>89.5%</b> 86.5%	<b>90.5%</b> 87.5%	<b>92.4%</b> 89.4%	<b>93.6%</b> 91.4%	<b>73.6%*</b> 77.1%

\*The figures in color represent firms in the upper 25th percentile in profitability. The bottom row represents the average for all firms in the group.

<sup>1</sup>Office net income was totaled for each group and divided by total number of partners.

<sup>2</sup>Percentage increase in net fees was computed for each reply, totaled for each size group and divided by the number of firms in each group.

<sup>3</sup>Replies were totaled for each size group and divided by the number of firms in each group, then divided by the average number of personnel in the group.



**Exhibit II**  
**Average Net Income Per Partner**

<u>Net income range</u>	<u>Non-national</u>				<u>National</u>
	<u>%</u> <u>Individual</u>	<u>%</u> <u>Small</u>	<u>%</u> <u>Medium</u>	<u>%</u> <u>Large</u>	
\$1- \$30,000	31.0	22.5	3.9	1.5	—
\$30,001 – \$60,000	42.6	58.3	40.7	19.9	8.3
\$60,001 – \$90,000	15.8	15.6	35.0	35.6	34.8
\$90,001 – \$125,000	6.9	3.3	15.3	23.3	32.1
\$125,001 – \$150,000	1.2	.2	3.5	8.3	12.2
\$150,001 and over	2.5	.1	1.6	11.4	2.6
Totals	100.0	100.0	100.0	100.0	100.0

**Exhibit III**  
**Average Annual W-2 Income Compensation**

<u>Classification</u>	<u>Non-national</u>				<u>National</u>
	<u>Individual</u>	<u>Small</u>	<u>Medium</u>	<u>Large</u>	
Supervisors and managers	\$29,396	\$28,603	\$30,584	\$35,705	\$40,062
Seniors (5 years)	\$22,790	\$22,711	\$24,782	\$27,370	\$27,745
Semi-seniors (3-4 years)	\$18,246	\$18,182	\$20,115	\$22,251	\$23,744
Juniors (0-2 years)	\$14,656	\$14,585	\$15,991	\$17,683	\$19,896
Clerical and nonprofessional	\$11,591	\$11,841	\$13,151	\$14,311	\$14,981

**Exhibit IV**  
**Starting Salaries for New Employees with a Bachelors Degree**

<u>Starting salary range</u>	<u>Non-national</u>				<u>National</u>
	<u>%</u> <u>Individual</u>	<u>%</u> <u>Small</u>	<u>%</u> <u>Medium</u>	<u>%</u> <u>Large</u>	
\$1 – \$14,400	10.6	13.8	20.6	11.8	.0
\$14,401 – \$18,000	6.7	13.1	35.8	46.1	8.8
\$18,001 – \$21,600	2.4	2.8	6.2	24.9	71.2
\$21,601 and over	.2	.3	1.1	1.7	15.5
None hired or no response	80.1	70.0	36.3	15.5	4.5
	100.0	100.0	100.0	100.0	100.0

**Exhibit V**  
**Average Standard Billing Rates**  
**for Professional Services**

	<i>Non-national</i>				<i>National</i>
	<i>Individual</i>	<i>Small</i>	<i>Medium</i>	<i>Large</i>	
Partners and individual practitioners	\$56.24	\$56.33	\$68.77	\$82.68	\$136.96
Supervisors and managers	\$46.52	\$42.84	\$48.82	\$55.48	\$ 83.70
Seniors (5 years)	\$38.41	\$36.71	\$39.92	\$42.84	\$ 57.27
Semi-seniors (3-4 years)	\$32.15	\$30.72	\$33.04	\$35.69	\$ 46.67
Juniors (0-2 years)	\$24.38	\$24.18	\$26.66	\$28.19	\$ 38.24
Clerical and nonprofessional	\$18.01	\$17.55	\$19.11	\$20.70	\$ 25.07

**Exhibit VI**  
**Net Annual Fee Ranges**

<i>Net fee range</i>	<i>Non-national</i>				<i>%</i>
	<i>%</i>	<i>%</i>	<i>%</i>	<i>%</i>	
	<i>Individual</i>	<i>Small</i>	<i>Medium</i>	<i>Large</i>	<i>National</i>
\$1 – \$50,000	21.2	1.7	.0	.0	.0
\$50,001 – \$100,000	31.5	7.2	.0	.0	.0
\$100,001 – \$200,000	32.0	32.8	.0	.0	.0
\$200,001 – \$300,000	8.8	40.8	.0	.0	.0
\$300,001 – \$400,000	3.5	17.5	18.8	.0	.0
\$400,001 – \$500,000	1.4	.0	25.7	.0	.0
\$500,001 – \$1,000,000	1.4	.0	55.5	16.3	6.6
\$1,000,001 – \$1,500,000	.1	.0	.0	48.7	17.8
\$1,500,001 – \$2,000,000	.1	.0	.0	14.4	11.1
Over \$2,000,001	.0	.0	.0	20.6	64.5
Totals	100.0	100.0	100.0	100.0	100.0

**Exhibit VII**  
**Percentage of Net Fees by Source**

	<i>Non-national</i>				<i>%</i> <i>National</i>
	<i>%</i> <i>Individual</i>	<i>%</i> <i>Small</i>	<i>%</i> <i>Medium</i>	<i>%</i> <i>Large</i>	
Auditing	11.9	15.1	20.2	25.5	54.3
Tax services	38.3	36.7	36.2	35.5	26.7
Compilation and review	21.7	23.1	21.0	18.5	5.1
Management advisory services	7.3	6.3	6.7	6.8	10.7
Other	20.8	18.8	15.9	13.7	3.2
Totals	100.0	100.0	100.0	100.0	100.0

the average compensation levels of other members of the professional staff. In recent years, there has continued to be a relationship between firm size and salaries; with the larger firms paying somewhat higher salaries than their smaller counterparts.

Related to the salary issue is the question of what to pay new recruits. The rise in entry-level salaries has moderated in recent years because of an easing of inflationary forces and an apparent decrease in new job openings. Exhibit IV shows salary ranges paid to newly hired college graduates in 1982, but the reader should be careful not to misinterpret those figures. For example, 6.7 percent of the individual practitioners who hired new personnel paid them starting salaries between \$14,400 and \$18,000 per year. It should not be inferred that 6.7 percent of the recruits hired by individual practitioners were paid an amount in that range.

#### **What about billing rates?**

The average standard fees (billing rates) charged for the different staff levels are shown in exhibit V. The rate structure in the individual practitioner firms is relatively "flat"; that is, juniors are billed out at more than \$24 per hour while the CPA-owner is billed at little more than twice that amount, or \$56.24 per hour. In fact, there is a rather compact billing structure in all of the non-national firms. However, the spread in billing rates is greatest in national firms where the range between the junior's (\$38.24 per hour) and the partner level's (\$136.96 per hour) represents a four to one margin.

Related to the table above are the ranges of the total annual net fees which are shown in exhibit VI.

A breakdown of the billings produced by the revenue-producing segments of the firm are shown in exhibit VII. Not surprising was the fact that tax

services produce the largest revenue source to the non-national firms, with auditing contributing a greater share of revenue as firm size increases. Looking at past surveys, we have observed a trend toward less relative revenue from auditing and increasing amounts being earned from other sources.

The information presented is only a portion of the data from the practice management survey and is an attempt to highlight certain features which may be interesting to a cross section of readers. While we make no attempt to say the data is representative of all practicing units, it should be informative to CPAs practicing anywhere.

—by *Carlton D. Stolle, CPA, Ph.D.*  
*Texas A&M University*  
*College of Business Administration*  
*College Station, Texas*  
and *Clinton F. Bateman, CPA*  
*Houston, Texas*

### **Successful Staff Selection**

Whenever there is a major change of condition affecting your practice, particularly one that necessitates the hiring of new staff, it is a good idea to take the opportunity to review your overall firm operations to see whether or not new directions are needed. You might find, for example, that new office policies suggest the hiring of people with certain personality traits and characteristics. In such instances, it would be nice to feel confident before hiring that prospective employees fit the bill. This is not as difficult as it seems.

Wrong choices, whether the problems are due to personality clashes, surprising lack of motivation or any other reason, can be avoided if the recruiting partners are aware of the prospects' personalities. Unfortunately, previous selection errors tend to be repeated because of

- ☐ Failure to ask applicants questions that disclose whether or not they meet your needs.
- ☐ Absence of an evaluation form listing desired characteristics and traits.
- ☐ Casual checking and questioning of references.
- ☐ Lack of truly objective, measurable criteria with which to evaluate candidates.

The interview evaluation form must cover those aspects of people's character and background that are important for particular positions in your firm. After careful analysis of a position, a detailed job description should be written and the interview evaluation form customized to suit.

The evaluation form will then provide a uniform basis for summarizing the interviews and comparing each applicant. Individual recruiting part-



ners will be looking for the same type of person, and preferences for one type over another are less likely to surface after the interviews.

References are not generally checked as thoroughly as they should be because of time pressure and lack of belief that any new insight will be gained. Problems with reference checks occur when only general questions are asked. Specific questions about performance, learning ability, etc., must be asked if one wishes to elicit really valuable information. But to be able to ask such pertinent questions, one first needs in-depth knowledge of each applicant.

The subjective nature of interviews permits extraneous factors such as the pressure of work, recent experiences and personal biases to taint true evaluations. Also, because the references one obtains on prospective employees are rarely bad, few negatives are ever delineated. The type of information needed should answer questions such as, will the applicant

- ☐ Learn fast or require lengthy introduction to methods and ideas?
- ☐ Require close supervision or be able to function independently?
- ☐ Be sensitive to clients' needs or oblivious to them?

- ☐ Become tense and irritable under pressure or be calm and relaxed?
- ☐ Seek to dominate and act beligerently or be meek and unable to confidently deal with other staff and clients?
- ☐ Be friendly or ultracompetitive and cause conflict?
- ☐ Accept people and directions or be cynical, reluctant and doubting?
- ☐ Show flexibility toward expedient altered approaches or require rigid set patterns?

With adequate preparation, thorough checking of references and the utilization of objective, measurable criteria throughout the evaluation and selection process, you can avoid the pitfalls of repeated hiring mistakes. Take a close look at your hiring process. You'll probably find that an accurate reading of potential employees' aptitudes, and personality dimensions will not only save you time, money and personal stress, but better enable you to focus on your primary goal of rendering profitable professional services.

—by Jay Nisberg  
*Jay Nisberg & Associates*  
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